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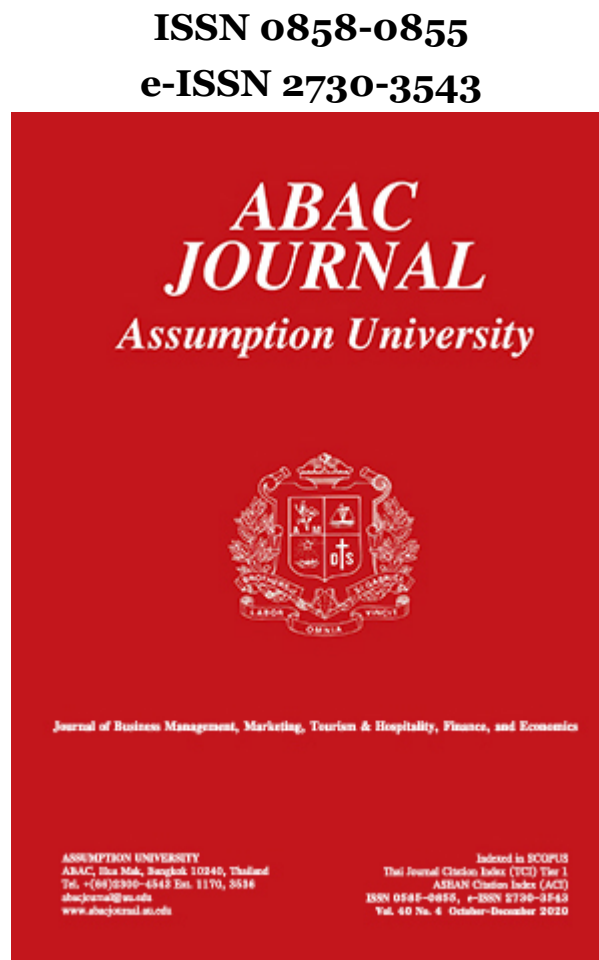
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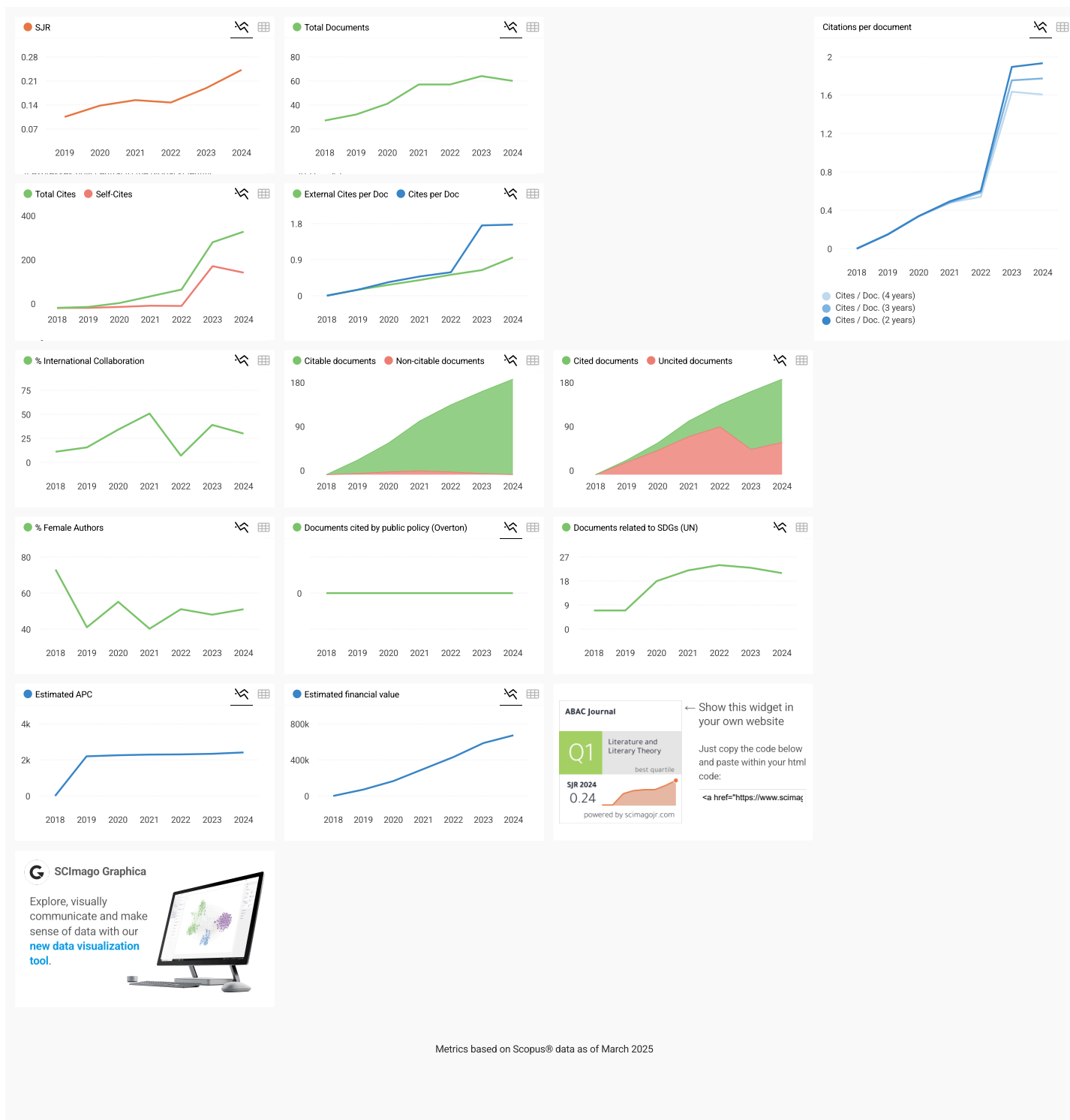
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# CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE IN THE INDONESIAN CONSUMER GOODS INDUSTRY THROUGH MARKET SHARE AND IDIOSYNCRATIC RISK

Josua Tarigan<sup>1,\*</sup>, Natasha Monica<sup>2</sup>, and Tristan Nguyen<sup>3</sup>

## Abstract

This paper explains the correlation between corporate social responsibility (CSR), market share, idiosyncratic risk, and corporate financial performance (CFP). The role of market share (MS) and idiosyncratic risk (IR), which cause an indirect effect, are also examined. Fifty-seven Indonesian-listed consumer goods companies were studied using partial least squares analysis. The findings suggest that CSR could act as a mitigating risk tool and improve the market's competitiveness. Investing in CSR eventually leads to a long-term increase in financial performance. This paper makes a valuable contribution, offering new and fresh insights into the long debates regarding the CSR-CFP relationship, which has been previously found to be inconsistent from prior studies, through the role of MS and IR as mediating variables that link CSR and CFP. CSR has been proven to build stakeholders' trust and thus increase MS and lower IR.

**Keywords** Corporate social responsibility, market share, idiosyncratic risk, corporate financial performance, consumer goods industry

## 1. INTRODUCTION

The spread of the coronavirus pandemic caused extended lockdowns, debt defaults, and a volatile political environment in developing markets, all of which may result in financial crisis and increased vulnerability (Rizwan *et al.*, 2020). Company vulnerability during the pandemic left companies with a problematic choice of actions and ethical reasoning. The global scale of the pandemic outbreak allowed significant corporations to regulate their handling of CSR constructively or negatively (Popkova *et al.*, 2020). While the pandemic created many challenges, it also presented opportunities, particularly in how companies approached their

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social responsibilities. Some businesses responded by stepping up: they offered greater support to affected communities, took extra care of their employees, and reinforced their commitment to sustainable practices, showing strong leadership during a difficult time. In countries such as India and across Southeast Asia, several firms redirected their CSR budgets to healthcare programs and community aid, demonstrating a sincere effort to meet urgent social needs (Dwivedi et al., 2024). In the United States, many corporations increased the frequency and detail of their CSR reporting during the pandemic, aiming to build trust and maintain transparency with their stakeholders (Rahman et al., 2024). However, not all responses were positive. Some companies used the crisis as a reason to reduce their environmental responsibilities or scale back CSR initiatives, framing it as a necessary move for survival, reflecting a more short-term, cost-focused mindset (Tan & Soh, 2024). These contrasting responses show how a crisis can both challenge and reveal the true depth of a company's commitment to corporate social responsibility.

The improvement in implementation of CSR practices has been affected by the prolonged and gradual development of today's global market. A tremendous increase in pressure from business stakeholders to take ethical, legal, and social responsibility into account consequently results in the evolution of overall business responsibility, not only by using profit to quantify its worth but rather through the vision of the organizational effect on society and the environment as core values the organization wants to achieve (Gunawan, 2018). CSR represents a firm's attempt to support the survival of the corporation through sound management practices that promote integrity, factual transparency, and corporate philanthropy (Cai *et al.*, 2011; Khlif *et al.*, 2015). CSR activities may directly influence the company's efficiency (Isnailita and Narsa, 2017). Hence, they represent stakeholder decisions and may influence the organization's long-term financial performance (Rashid, 2018). In Indonesia, the development of CSR is very significant as Indonesia is faced with a range of fundamental difficulties in implementing the SDGs, with a focus on issues such as human rights, poverty alleviation, health and safety, social and political instabilities, pollution, waste, and need for foreign direct investment (Gunawan, 2018). Indonesian companies are expected to carry out and report on CSR activities by linking them to sustainable development, human rights, human capital, the environment, 'true and fair' business practices, and consumer concerns.

Customers are among the primary stakeholders that affect a company's value. CSR positively impacts consumers through its review and appraisal of the firm's goods. Organizations can benefit from improved positioning by implementing CSR if they have a positive reputation and image for contributing good deeds toward society, even if it means sacrificing some income (Devie *et al.*, 2019a). This strategy is applied in such a way as customers have a high degree of interest in a brand that is socially conscious compared to its rivals whose social performance could be below the benchmark and thus utilize the firm's products (Khan & Majid, 2013). CSR programs improve customer retention, leading to loyalty and a decrease in customer mistrust in companies. As the firm's performance is determined by the contributions of many parties, including customers, customer satisfaction could lead to a higher market share.

CSR activities can also affect corporate image, increase corporate value, and reduce firm risk. CSR activities support a business's reputation by developing a fresh, more positive image and by strengthening positive relationships with stakeholders (Tarigan *et al.*, 2020). Studies have shown that CSR is negatively correlated with idiosyncratic risk and can assist companies in alleviating idiosyncratic risk, providing protection similar to insurance when adverse events take place (Bouslah *et al.*, 2016; Chen *et al.*, 2018; Kong *et al.*, 2020), while also reducing information asymmetry (Jo & Na, 2012) which helps the firm to gain access to greater capital. CSR can ultimately contribute to the firm's economic growth, as CSR practices generate value for the business by improving its relationships with stakeholders, shaping

reputation, re-examining uncertainties due to business activities, decreasing information asymmetry, and mitigating abrupt occurrences. Consequently, CSR affects the idiosyncratic risk profile and the cost of debt, eventually improving the firm's performance.

Several studies are already underway focusing on the examination of CSR-CFP correlations. The findings, however, are inconsistent and have shown that the effect of CSR on firm output is spurious, indicating that there is a mediating dependent component between the relationship of CSR and CFP (Verbeeten *et al.*, 2016; Isnalita & Narsa, 2017). Previously, most studies have aimed to connect CSR and CFP through total risk and systematic risk, yet there have been few research studies observing the relationship through the idiosyncratic risk viewpoint. This also applies to the mediating effect of market share, for which only a few past studies can be found. Prior studies have only examined four variables separately: the correlation of CSR-idiosyncratic risk or idiosyncratic risk-CFP, and either CSR-market share or market share-CFP. As a result, this study aims to prove that all four of these variables are correlated with each other, by examining market share and idiosyncratic risk as the mediating variables of the impact of CSR towards CFP in the consumer goods industry, especially during the Covid-19 pandemic. Both market share and idiosyncratic risk are expected to link with and become a bridge for CSR and CFP. Consequently, this study aims to improve understanding of the CSR-CFP relationship, which remains incoherent from prior studies.

## **2. LITERATURE REVIEW AND HYPOTHESES**

### **2.1 Legitimacy Theory**

In line with the concept of legitimacy theory, all companies enter into a contract with society, conducting business within the values maintained by the companies they operate. It is essential to ensure and maintain alignment with all stakeholder expectations. Companies seek legitimacy from their community, with general practice being to enact services that represent the needs of society (Devie *et al.*, 2019b). Since public influence has the discretion to allocate resources, corporations seek to legitimize their activities for society by utilizing environmental performance and social disclosure (Luethge & Han, 2012). This is a means for firms to create, preserve, and legitimize corporate contributions, both from an economic and political perspective, by disclosing information regarding corporate social responsibility in their annual or sustainability reports (Carroll and Shabana, 2010).

### **2.2 Stakeholder Theory**

Stakeholder theory focuses more on the ability and capacity of various stakeholders to exert pressure on companies to share information regarding their social and environmental activities and the demands of specific societal groups (Khlif *et al.*, 2015). The company's objectives must not be restricted to serving only its purposes and profit, as well as other stakeholders' interests (Ducassy, 2012; Tarigan *et al.*, 2020). The organization's success depends on how well it manages relations with key groups such as customers, employees, suppliers, communities, financial institutions, or others, which may influence the achievement of its goals (Khan & Majid, 2013; Isnalita & Narsa, 2017). Hence, stakeholders' level of support for the firm will significantly influence the corporation's state (Devie *et al.*, 2019b).

### **2.3 Corporate Social Responsibility**

Corporate social responsibility is generally defined as a duty performed by a business to all its stakeholders in all its activities to achieve sustainable development in the social,

economic, and environmental dimensions (ACCA, 2020). Through the usage of CSR, the ability of firms to attract, improve motivation, and retain employees can be enhanced. At the same time, it also reduces operational costs, boosts investor and financial analyst attractiveness, helps companies strengthen brand positioning, gains increased sales and market share, and enhances corporate image (Wang, 2014). Furthermore, studies have found that using CSR strategies for competitive purposes has a positive moral impact (Luethge & Guohong Han, 2012; Tarigan *et al.*, 2020). Legitimacy theory claims that the use of CSR is to legitimize their activities for society (Luethge & Guohong Han, 2012). This is a means for firms to create, preserve, and legitimize corporate contributions, both from an economic and political perspective, by disclosing information regarding CSR in their annual or sustainability report (Carroll & Shabana, 2010). Stakeholder theory states that the use of CSR is to manage the relationship of a business with its stakeholders, which in turn may influence achievement of the firm's objectives. Thus, stakeholders' levels of support for the firm significantly influence the corporation's state (Devie *et al.*, 2019b). Following prior studies (Carroll & Shabana, 2010; Cai *et al.*, 2011; Ducassy, 2012; Jo & Na, 2012; Mishra & Modi, 2012; Harjoto & Laksmana, 2016; Devie *et al.*, 2019a; Ongsakul *et al.*, 2020), this study uses the Kinder, Lydenberg, and Domini's (KLD) index in measuring CSR policies.

## **2.4 Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP)**

There are numerous prior research studies that have examined the relationship between a firm's CSR and corporate financial performance. However, the empirical findings are inconclusive despite the large body of literature on this subject. Both researchers and the business community have long argued about the link between a company's environmental performance and its financial outcomes (Devie *et al.*, 2019b). Corporate performance is a fundamental measure of a company's effectiveness in managing and allocating capital to produce income. Three-dimensional discussions (positive, adverse, and neutral correlation) usually occur in discussions of the CSR and CFP relationship. A positive correlation can be found in stakeholder theory, which states that companies whose management team prioritize activities that improve social efficiency will outperform other organizations in the long run (Devie *et al.*, 2019a). Stakeholder theory also supports this positive relationship between CSR and CFP. Previous studies have also found that these two variables have a positive association (Raza *et al.*, 2012; Wang, 2014; Kang *et al.*, 2016). Thus, following prior studies, the hypothesis is presented as below:

H1: CSR has a positive relationship with CFP

## **2.5 Corporate Social Responsibility (CSR) and Market Share**

Communicating CSR policies and plans to stakeholders within an enterprise tends to significantly impact the firm's corporate social performance, CFP, and reputation. Consumers are one of the most important stakeholders. Consumers who are pleased with a company's CSR activities are more likely to buy its products and services. Consumers tend to have higher trust for a socially responsible organization and thus prefer to buy its products. Those who are satisfied with the company's services or products will remain loyal, purchasing more products or using the company's services regularly (Isnalita & Narsa, 2017). This will eventually result in a larger market share. According to a study conducted by Carroll and Shabana (2010), which looked at the correlation between CSR and market share to measure the CFP, customers can be attracted by a company's CSR activities.

As CSR activities strengthen corporate reputation (Mubarak *et al.*, 2018), the concerns of the consumers and the shareholders regarding a company's best interests in CSR could

substantially affect the company's market share. Discussions argue that business organizations will allegedly continue CSR initiatives if they believe such initiatives will eventually influence their market share and, thus, CFP (Khan & Majid, 2013). Thus, it is proposed that:

H2: CSR has a positive relationship with a firm's market share

## **2.6 Corporate Social Responsibility (CSR) and Idiosyncratic Risk**

CSR benefits could include improving wealth among shareholders by protecting them with insurance, enhancing risk management, increasing customer market appeal through a strategic approach, improving transparency, or providing greater accessibility to the financial market (Harjoto & Laksmana, 2016). All or a subset of these factors could foreseeably reduce the risk of firms (Jo and Na, 2012; Nguyen & Nguyen, 2015; Devie *et al.*, 2019a). According to stakeholder theory, positive and negative CSR influence firms' relationships with their primary stakeholders, which are represented in firm-specific resources, resulting in changes to idiosyncratic risk. A study conducted by Bouslah *et al.* (2016) stated that the impacts on overall risk caused by CSR are expected to be more significant during a financial crisis and maybe also in the post-crisis period due to its impact on idiosyncratic risk. Another study by Suto and Takehara (2021), which took evidence from Japanese firms, also supports the mitigating effect of CSR on a firm's idiosyncratic risk. CSR impacts idiosyncratic risk by affecting relationship-based intangible assets such as trust, reputation, brand, consumer loyalty, and staff morale. Stakeholder interactions and their appraisal of firm operations affect the potential cash flows generated by these intangible assets. Thus, the following hypothesis is proposed:

H3: CSR has a negative relationship with idiosyncratic risk

## **2.7 Corporate Social Responsibility (CSR), Market Share, and Corporate Financial Performance (CFP)**

As one of the main stakeholders, consumers reward socially responsible enterprises through increased purchasing. They are occasionally willing to pay a greater price for such goods in certain instances (Khan & Majid, 2013). The market share reflects a company's competitiveness in the market, meaning that companies with a more significant proportion of the market are seen as better able to meet customers' needs and have a competitive edge over smaller competing brands (Genchev, 2012). As an organization's profitability rises in direct proportion to its market share (Buyaki, 2017), therefore market share is closely related to performance and can be a valuable indicator of operational performance. More specifically, it is possible for a corporation to increase sales and hence reduce average costs by leveraging experience curve effects, boosting its profitability and expanding its market share. Businesses with a significant market share have a stronger bargaining position and can therefore form more rewarding partnerships with customers, suppliers, and other stakeholders (Edeling & Himme, 2018). Due to inconsistencies in research results when examining the relationship between CSR and CFP, a firm's market share will be used in this study as a mediating variable.

H4: Market share mediates the relationship between CSR and CFP.

## **2.8 Corporate Social Responsibility (CSR), Idiosyncratic Risk, and Corporate Financial Performance (CFP)**

As a company and society have points of intersection, strategic CSR may become an opportunity for the firm rather than a cost. According to Adascalitei (2015), firms with a social conscience have less fluctuation in their stock prices. Previous studies (Jo and Na, 2012; Chollet and Sandwidi, 2018; Chang *et al.*, 2019) have studied the relationship between CSR,

risk, and CFP. Participation in CSR can lower a firm's financial risk, enhancing corporate management commitments and sustainable development practices. Risk management advancements can eventually boost corporate profitability levels. According to prior research, CSR and risk have an adverse correlation (Chollet & Sandwidi, 2018; Utz, 2018; Devie *et al.*, 2019a). If risk is managed and the volatility of stock prices is reduced, organizations can expect steadier earnings due to a reduction in poor outcomes. As a result, reducing risk may improve a firm's performance. Thus, the following hypothesis is suggested:

*H5: Idiosyncratic risk mediates the relationship between CSR and CFP.*

### 3. RESEARCH METHODOLOGY

#### 3.1 Sample

Utilizing partial least square analysis (PLS) tests hypotheses to identify the correlations between variables. Indonesian consumer goods firms listed in the Indonesia Stock Exchange (IDX) for 2017-2020 were chosen as the sample for study. This industry contributed around 7.87% and 8.08% of Indonesia's total GDP in 2018 and 2019 respectively (BPS-Statistics Indonesia, 2019). The consumer goods industry relies mainly on consumers' consumption levels and loyalty and thus must cope in a competitive environment with rapidly changing customer expectations. Any activities conducted by companies in this industry will be supervised by customers and become the centre of attention since the company's activities are closely related to people's daily lives and needs. All data were derived from secondary sources such as annual reports, sustainability reports, Yahoo Finance, Bloomberg, and other reliable websites.

Table 1 provides a detailed overview of the total sample. In total, there are 57 companies with complete data across the four years, resulting in 228 firm-year observations, which is deemed to fulfill the necessary criteria for appropriate sample size.

**Table 1** Summary of the Observed Sample

Sampling criteria	No. of firms
Companies listed in the Indonesian Stock Exchange (IDX) under the consumer goods industry	106
Companies not listed throughout the entire period of 2017 to 2020	(31)
Companies that did not publish complete annual reports for the years of 2017 to 2020	(12)
Companies that do not have consistent and sufficient information regarding CSR from the years of 2017 to 2020	(6)
Companies that fulfill the criteria	57

#### 3.2 Measures

*Measurement of CSR:* CSR policies were measured using the KLD method, which has also been widely used in previous studies (Nguyen & Nguyen, 2015; Devie *et al.*, 2019a). This approach allows the sample companies to be evaluated within specific areas. The KLD index depicts a multidimensional measure of CSR by capturing both the strengths and concerns regarding social issues and the environmental, social, and governance performance of the firm. This study will focus on only five areas relevant to Indonesia: diversity, community, environment, employee relations, and products. When the firm is shown to have adopted specific policies or practices relevant to the problem area, a score of '1' will be assigned for

each strength identified in the respective measurement, while a score of ‘-1’ will be given for any identified concerns within the same measurement. Meanwhile, ‘0’ will be assigned when no initiative or policies are applied.

*Measurement of CFP:* Market-based measurement will be utilized to measure the corporate financial performance in this study. In this case, Tobin’s Q is used to measure the firm value that will affect CFP as this ratio describes the state of the company’s investment prospects and its potential for growth (Rodgers *et al.*, 2013; Kim and Kim, 2020). It is calculated from the market value of the firm’s assets over the book value of the firm’s assets. A value of Q exceeding one, indicates that the value of the company’s capital investment outweighs its cost, which will eventually attract more new investments. Conversely, a value less than one, indicates that asset investment is not as appealing as expected (Nenu *et al.*, 2015).

*Measurement of market share:* Market share is the ratio between the sales of a particular company and the total sales of the industry (Lee, 2013; Isnalita & Narsa, 2017). It is a variable of market structure, reflecting the competition in each market or industry and showing the concentration level in that market or industry. Thus, it can be concluded that a firm has a strong position in the marketplace if it has a significant market share (Genchev, 2012; Buyaki, 2017).

*Measurement of idiosyncratic risk:* Idiosyncratic risk depicts market fluctuations in corporate management and operating efficiency, which can be diversified away. It affects only a few assets; thus, this type of risk is referred to as a firm-specific unique risk (Hatane *et al.*, 2019). This risk encompasses factors such as company culture, operational strategy, financial policy, and investment strategy. Following prior studies (Mishra & Modi, 2012; Nguyen & Nguyen, 2015), the market model regression standard deviation of daily stock returns is utilized to calculate idiosyncratic risk.

**Table 2** Variable Definitions and Data Sources

Variable	Definition	Data sources
CSR	Difference between total strengths and total concerns score	Annual and sustainability report, firm’s official website
Idiosyncratic risk (IR)	Market regression of standard deviation of daily stock return	Yahoo Finance, Bloomberg
Market share (MS)	Ratio of the firm’s sales to the industry’s total sales	Annual report
Tobin’s Q (TOBQ)	Market value of assets over book value of assets	Bloomberg

### 3.3 Validity and reliability

Validity in the PLS used in this study includes both convergent and discriminant validity, which were examined through the correlation coefficient between the latent variable score and the indicator score represented by the factor loading value. The criteria of convergent validity are considered fulfilled when the factor loading value is more significant than 0.5. The discriminant validity test is passed if the cross-loading value for each indicator is greater than the loading value of other latent variables. Following the validity test, the reliability and multicollinearity of variables must be ensured by looking at composite reliability and full collinearity variance inflation factor (VIF) values. To pass the composite reliability test, the

value must be greater than or equal to 0.7. Regarding the collinearity test, VIFs must be less than 3.3. Table 3 details the results for the reliability and multicollinearity tests of all variables.

**Table 3** Reliability and Collinearity Values for All Variables

	CSR	IR	MS	CFP
R <sup>2</sup>		0.02300	0.02300	0.27300
Adj. R <sup>2</sup>		0.01800	0.01900	0.26300
Composite reliability	1.00000	1.00000	1.00000	1.00000
Avg. variance extraction	1.00000	1.00000	1.00000	1.00000
Full collinearity VIFs	1.04500	1.13400	1.13900	1.24700

## 4. RESEARCH RESULTS AND DISCUSSION

### 4.1 Sample Description

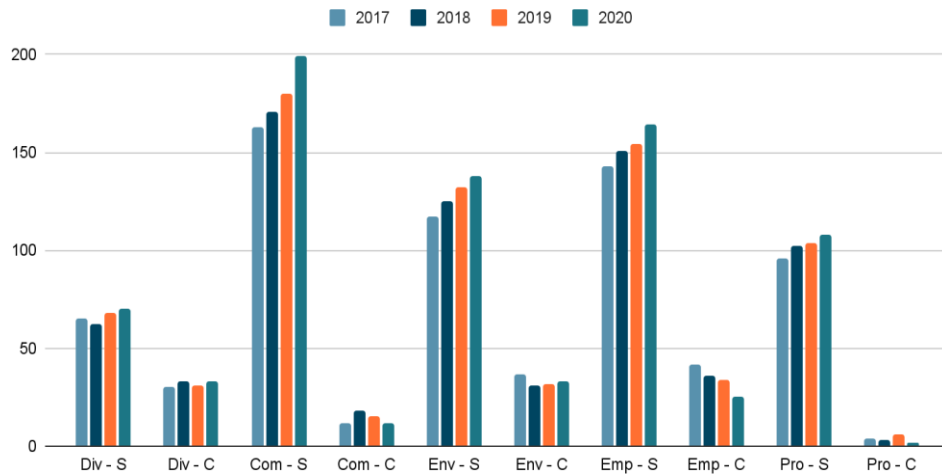
Table 4 shows the descriptive statistics for each variable, providing the minimum, maximum, mean, and standard deviation values. The total data tested in this study included 228 datasets derived from 57 companies over four years.

**Table 4** Descriptive Statistics for Each Variable

Indicators	Minimum	Maximum	Mean	Std. Deviation
CSR	1.00000	16.00000	8.80300	3.14800
MS	0.00020	0.11908	0.01466	0.02504
IR	0.00181	0.07043	0.02709	0.01337
CFP	0.09800	22.55900	1.63358	2.85395

The observed minimum and maximum CSR scores in the sample are 1 and 16, respectively, although the theoretical range of CSR scoring based on the KLD method spans from -17 to 17. These results indicate that all sampled Indonesian consumer goods firms had net positive CSR scores, reflecting a general trend of active engagement in CSR activities during the study period. As stated in Figure 1, CSR in the 57 Indonesian consumer goods companies shows an increasing trend from 2017 until 2020. The highest CSR score was during the year 2020 when the pandemic of Covid-19 had spread globally. It can be seen that year-to-year companies became more aware that CSR performance could bring them better prospects in the upcoming years related to business sustainability. The scores improve gradually, and during 2020 Indonesian consumer goods companies' strengths in the areas of community and employee issues reached their peak. Firms have placed their greatest attention and effort on the societies and communities around them, maintaining good relationships by providing benefits and a well-established working environment for their employees. However, diversity has the lowest scores for the four consecutive years, with relatively stable total concern scores among the five issue areas examined.

**Figure 1** CSR Strength and Concern Scores in Each Issue Area



## 4.2 Hypothesis and Research Results

### 4.2.1 Hypothesis 1: CSR has a Positive Relationship with CFP

It was previously hypothesized that CSR had a considerable beneficial impact on a company's financial performance when strengths are measured and deducted by the concerns (Figure 2). The data processing results detailed in Table 5 and Table 6 show that CSR directly influences CFP with a coefficient value of 0.172 and indirectly influences CFP with a 0.096 coefficient value. Thus, it yields a total effect of 0.268 with a p-value less than 0.001. The findings, which indicate a significant positive relationship, have proven that when a consumer goods firm participates more in CSR practices, it will lead to better and higher financial performance.

**Table 5** Direct Effect Path Coefficients and p-Values

Independent Variable	Dependent Variable	Path Coefficients	P-Value
CSR	CFP	0.17200	0.00400
CSR	IR	-0.15000	0.01000
CSR	MS	0.15100	0.01000
IR	CFP	-0.34400	<0.00100
MS	CFP	0.28900	<0.00100

**Table 6** Indirect Effect Path Coefficients and P-Values

Independent Variable	Mediating Variable	Dependent Variable	Path Coefficients	P-Value
CSR	MS and IR	CFP	0.09600	0.07200

As a result of this, the assertion that CSR contributes to a long-term competitive advantage can be confirmed. This is partly due to a long-standing relationship with those interested in the company (Alikaj *et al.*, 2017). Moreover, the findings of this study corroborate

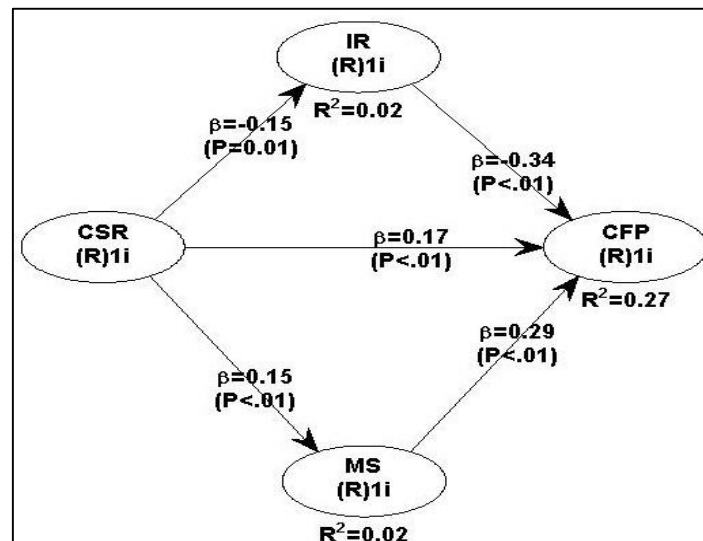


those of prior studies (Raza *et al.*, 2012; Wang, 2014; Kang *et al.*, 2016; Devie *et al.*, 2019a; Devie *et al.*, 2019b). The findings also support the results of studies by Rodgers *et al.* (2013) and Price and Sun (2017), which stated that the reputation of corporate social responsibility is linked to a company's value. Most of the time, investors perceive and respond favorably to an entity's social or environmental actions, and as a result, the firm's financial health and market value may improve. This should relate to an increase in the company's worth, primarily when the organization's reputation can be maintained by providing accurate information.

The findings support the value-enhancement theory, which states that corporations might deliberately use an opportunity to target customers by utilizing CSR initiatives to boost their value. This could be because the usage of CSR enhances a corporation's ability to attract, motivate, and retain employees, reduce operational costs, boost investor and financial analyst attractiveness, help companies strengthen brand positioning, gain increased sales, and market share, and enhance corporate image (Wang, 2014). Furthermore, the use of CSR strategies for competitive purposes has a positive moral impact for firms.

CSR in the consumer goods industry has proven to be a profitable investment for companies, resulting in better financial performance. CSR has become an attempt to support the survival of corporations through good management practices that promote integrity, factual transparency, and corporate philanthropy (Cai *et al.*, 2011; Khlif *et al.*, 2015). CSR activities directly influence a firm's efficiency; thus, the outcomes represent the stakeholders' decisions and may influence the organization's long-term financial performance. This also supports stakeholder theory, which claims that an organization's reputation can be improved if it responds to the needs of its stakeholders. Through the findings in this research, which also include data from the year 2020, CSR is proven to help firms perform better financially, including during the COVID-19 pandemic period, and could be a tool for firms to maintain their sustainability during crises.

**Figure 2** Representation of Results in a Path Diagram



#### 4.2.2 Hypothesis 2: CSR Has a Positive Relationship with a Firm's Market Share

A firm's market share increases because of CSR policies enacted by the businesses. The findings indicate that CSR and a firm's market share have a highly significant positive correlation. The relationship is defined with a path coefficient value of 0.151 and a p-value of 0.01. When a consumer goods firm engages in more CSR activities that improve its CSR scores,

its market share can escalate. The higher market share means that the percentage increase in the firm's sales revenue is higher than the percentage increase in the total sales revenue of the whole industry. CSR policies attract greater revenue for the firm.

This is consistent with findings from earlier research (Carroll & Shabana, 2010; Isnalita & Narsa, 2017), which stated that CSR affects market share. CSR activities performed by the firm strengthen the corporate reputation (Mubarak *et al.*, 2018) thus, investing in CSR can create a significant impact on the firm's market share. Based on research conducted by Cegliński and Wiśniewska (2017), CSR may be a powerful and long-term competitive benefit for businesses. However, these policies must be carried out practically and should be incorporated into business strategy. The firm could maintain a strong position and competitiveness in the marketplace, even during a crisis, if it has a significant market share. Trust among stakeholders is the first benefit derived from CSR. Because of the inherent risk and unpredictability in each given situation, it appears that building trust is an absolute necessity. When selecting a product or service, conscious decisions are made by consumers, which are frequently guided by trust toward a company, its image, and the impression it generates regarding environmental concern (Cegliński & Wiśniewska, 2017). During the pandemic outbreak, many consumer goods firms increased their CSR score through positive CSR and minimization of negative CSR. Thus, this helped them to maintain and even increase their competitiveness in the market, improving their percentage of market share.

#### **4.2.3 Hypothesis 3: CSR has a Negative Relationship with Idiosyncratic Risk**

The results indicate that increasing the CSR score could help firms mitigate risk and thus reduce the value of idiosyncratic risk. The adverse correlation between CSR and idiosyncratic risk has been shown through the path coefficient value of -0.150 with a p-value of 0.01, which shows that the relationship is highly significant. The findings in this research support previous studies regarding the negative association of CSR and idiosyncratic risk (Mishra & Modi, 2012; Bouslah *et al.*, 2016).

Weaknesses in CSR implementation are linked to higher levels of idiosyncratic risk, suggesting that a combination of good management and good operational procedures can help mitigate the risk of operating uncertainties. According to Chen *et al.* (2018), when the market is going through a period of corrective action, both corporate social responsibility and the company's idiosyncratic risk have negative repercussions on one another. The ability of a company to continue to promote corporate social responsibility, construct communication channels and connect with stakeholders, and improve operating methods, will aid in development and reduce idiosyncratic risk when the market is uncertain. Therefore, involvement in CSR engagement could become an 'insurance' security for the company, attracting consumers, increasing transparency, and decreasing information asymmetry (Harjoto and Laksmana, 2016). As the level of information transparency is promoted, high-quality CSR could help investors to better comprehend the stock price and, as a result, minimize the firm's idiosyncratic risk. This implies decreased volatility in an enterprise's future predicted cash flows and prepares the firms to face uncertain future events, such as the Covid-19 pandemic.

#### **4.2.4 Hypothesis 4: The Firm's Market Share Mediates the Relationship Between CSR and CFP**

The firm's market share and CFP have a direct positive and highly significant relationship. This is shown through the path coefficient value of 0.289 with a p-value of less than 0.001, indicating that when the market share experiences an increase, there is a consequent increase in corporate financial performance as depicted through Tobin's Q as the firm value indicator. In addition to that, market share is proven to have a positive and significant indirect effect and thus mediates the relationship between CSR and CFP, with a path coefficient of

0.096 and a p-value of 0.072 in the constructed model. With a total effect of 0.289 (path coefficient) and p-value of less than 0.001, it could be concluded that the role of market share as a mediator between CSR and CFP is strong.

Increasing CSR engagement results in a higher market share, such that the firm is considered to be better able to satisfy customers' needs and allowing it to have a competitive advantage over smaller competing businesses (Genchev, 2012). Businesses with a significant market share have a stronger bargaining position and can therefore form more rewarding relationships with stakeholders, including customers, suppliers, and other stakeholders (Edeling & Himme, 2018). Firms capture a more extensive market and opportunities through implementing CSR, as this allows them to build trust with their stakeholders as stakeholders value more socially responsible businesses. As a result, trust in the company translates into increasing sales revenue, and thus, a high market share, which will directly translate into high profitability (Buyaki, 2017). As a firm becomes more competitive in its industry, the firm's value will improve and it will quickly achieve a higher return for its investments or costs already incurred. Hence, market share is proven to be closely related to performance and mediates the relationship between CSR and CFP.

#### **4.2.5 Hypothesis 5: Idiosyncratic Risk Mediates the Relationship Between CSR and CFP**

With a coefficient value of -0.344 and p-value < 0.001, idiosyncratic risk adversely impacts corporate financial performance significantly. Furthermore, the constructed model also shows an indirect effect of idiosyncratic risk in the relationship between CSR and CFP. In the constructed model, the findings show a path coefficient value of 0.096 and a p-value of 0.072. The total effect of IR on CFP is also negative and highly significant, with a p-value of less than 0.001 and a path coefficient value of -0.344. Henceforth, idiosyncratic risk is proven to have a role in mediating the relationship between CSR and CFP. As both CSR to idiosyncratic risk and idiosyncratic risk to CFP have a negative association, it thus results in a positive relationship of CSR towards CFP.

This finding is consistent with earlier research (Chollet and Sandwidi, 2018; Utz, 2018; Chang *et al.*, 2019). Participation in CSR practices can lower a firm's idiosyncratic risk, enhancing corporate management commitments and sustainable development practices. The unfavorable relationship is developed and aligned with the initial goal of enterprise risk management, which is to improve entities' short and especially long-term value to their stakeholders while also expanding prospects for growth. Along with legitimacy and stakeholder theory, CSR works as a tool for the firm to seek legitimacy from its stakeholders, allowing it to be perceived as a socially responsible business, while the firm believes that each stakeholder has their own expectations toward the business, and thus, CSR helps to manage the relationship and fulfilment of expectations.

Risk management advancements can eventually boost corporate profitability levels and improve a firm's performance. As a means of reducing the company's idiosyncratic risk, creating value, and developing new ways of operating that may be more efficient in terms of resource use, CSR helps organizations stay ahead of their competition. A firm can devise a risk-reducing strategic CSR proposition that is distinctive for its customers and which can increase market charm to its customers (Jo & Na, 2012). Engagement in CSR activities also assists companies in lowering capital costs and reducing uncertainty (Tasniah *et al.*, 2020). A study by Adascalitei (2015) stated that businesses that embrace socially responsible concepts experience lower stock price volatility as there is lower information asymmetry. When the risk is managed, and the volatility of stock prices is reduced, organizations can expect steadier earnings since a poor outcome is reduced and strategic value has persevered. Henceforth, this will impact the firm's financial performance better, even during a crisis or uncertain event.

All in all, the role of CSR is very important for companies to be sustainable in their business. Performing CSR can help firms to lower their firm-specific risk and capture a bigger market, resulting in better financial performance. Most consumer goods firms in Indonesia already implement good CSR practices, as the scores are above the average of 8.803. However, some firms still have a CSR score below the mean average value. It is suggested that firms in the consumer goods industry improve their CSR score to be more socially responsible, resulting in a better corporate reputation and lower firm-specific risk. Thus, the information asymmetry will be lowered, helping investors to gain more information about the firm that helps them in decision-making for providing investments. CSR will attract more consumers and investors and advance relationships with other stakeholders. Investment in CSR could act as insurance for the firm, helping businesses to face uncertain futures which aggravate the business's financial performance. Therefore, it is essential for the management of the companies to put greater attention toward their CSR implementation as it could stabilize and minimize the impact of uncertainties and crisis periods such as the COVID-19 pandemic, positively affecting the business's long-term financial performance.

## **5. CONCLUSION AND LIMITATIONS**

This research examined the relationship between CSR, CFP, market share, and idiosyncratic risk. A thorough examination has also been conducted to analyze the mediating role of market share and idiosyncratic risk. The KLD index was utilized for measuring CSR policies. For CFP, market-based measurement through Tobin's Q was used as the proxy. The value of market share was derived from dividing the firm's sales revenue by the consumer goods industry's sales revenue. Lastly, the firm's idiosyncratic risk was measured through the market model regression standard deviation of daily stock return.

CSR has been proven to significantly affect the CFP and market share positively, as presented in H1 and H2. Engagement in CSR activities results in improved firm value, which is proven by a positive association with Tobin's Q. Performing CSR leads to capturing a more significant market since consumers perceive the firm as a socially responsible business. Thus, customers become more interested in investing or buying more from the firm. Customer loyalty is also increased, while the company's level of competitiveness in the industry improves. CSR was also proven to have a strong negative association with idiosyncratic risk, supporting H3. Considering the findings, more significant CSR efforts can help to reduce and preserve a company's volatility. Thus, CSR works as a risk management tool for the company.

Both firm's market share and idiosyncratic risk were found to act as mediating variables in the relationship between CSR and CFP, as defined in H4 and H5. This study has proven that these four variables are connected. When a firm implements more CSR during its business activities, it can improve its public image and reputation, thus increasing the level of sales revenue, and leading to an enhancement of financial performance. On the other hand, it is possible for organizations to mitigate risks as they become more socially responsible, and this can lead to better financial performance and an increase in firm value, which then improves the firm's financial performance.

This research paper has some potential limitations. This study only examines the relationship of four variables in listed companies operating their business in the Indonesian consumer goods sector. Different outcomes might be acquired when different sectors are used. Further studies may use another type of measurement to analyse the variables. They may examine the differences in CSR engagement between pre- and post-pandemic situations to see whether there are changes in firms' CSR behaviour before and after Covid-19.

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